

**THE OFFICE OF REGULATORY STAFF  
DIRECT TESTIMONY AND EXHIBITS  
OF  
CHRISTINA L. SEALE**



**NOVEMBER 8, 2006**

**DOCKET NO. 2005-13-W/S**

**APPLICATION OF WYBOO PLANTATION  
UTILITIES, INCORPORATED FOR ADJUSTMENT  
OF RATES AND CHARGES FOR PROVISION OF  
WATER AND SEWER SERVICE**

1

2                                   **TESTIMONY OF CHRISTINA L. SEALE**

3   **FOR**

4                                   **THE OFFICE OF REGULATORY STAFF**

5   **DOCKET NO. 2005-13-W/S**

6                                   **IN RE: WYBOO PLANTATION UTILITIES, INC.**

7

8   **Q.   PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

9   A.   My name is Christina L. Seale. My business address is 1441 Main Street, Suite 300,  
10       Columbia, South Carolina, 29201. I am employed by the South Carolina Office of  
11       Regulatory Staff (“ORS”) as an Auditor.

12   **Q.   PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR**  
13       **BUSINESS EXPERIENCE.**

14   A.   I received a Bachelor of Science in Accounting with a minor in Computer Systems  
15       and Applications from Columbia College in 2000. From 2001 to 2004, I was  
16       employed by the South Carolina Office of the State Auditor. In that capacity, I  
17       performed agreed-upon procedures of various state agencies in South Carolina. I  
18       also performed audits of various state agencies for the annual Single Audit of the  
19       State’s Schedule of Expenditures of Federal Funds. In January 2005, I began my  
20       employment with ORS.

21   **Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING WYBOO**  
22       **PLANTATION UTILITIES, INC.?**

1 A. The purpose of my testimony is to set forth my findings and recommendations  
2 resulting from ORS's review of the application of Wyboo Plantation Utilities, Inc.  
3 ("Wyboo") in this docket.

4 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**  
5 **TESTIMONY.**

6 A. I have attached the Report of the Audit Department ("Audit Report") related to  
7 Wyboo's application for rate increase, Docket No. 2005-13-W/S. The contents of  
8 the Audit Report were either prepared by me or were prepared under my direction  
9 and supervision in compliance with recognized accounting and regulatory procedures  
10 for water and wastewater utility rate cases.

11 **Q. PLEASE EXPLAIN THE CONTENTS OF THE AUDIT REPORT.**

12 A. As outlined in the index of the Audit Report, pages 1-3 contain the analysis of  
13 Wyboo and its application. The remaining pages consist of exhibits, which show  
14 various aspects of Wyboo's operations and financial position. The majority of my  
15 testimony will refer to Audit Exhibit CLS-1 - Operating Experience and Operating  
16 Margin, as shown on page 4 of the Audit Report.

17 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT CLS-1 AND**  
18 **ELABORATE ON THE CALCULATIONS.**

19 A. Column (1) shows the per company application figures of Wyboo as of December  
20 31, 2005. The total income for return is based on the total operating revenues less  
21 total operating expenses plus customer growth. The operating margin is computed  
22 by dividing the total income for return less interest expense by the total operating

1 revenues.

2 Column (2) shows ORS's proposed accounting and pro forma adjustments designed  
3 to normalize Wyboo's per company application figures. A description of each  
4 adjustment is contained in Audit Exhibit CLS-2.

5 Column (3) shows ORS's result of a normalized test year for Wyboo by adding  
6 columns (1) and (2).

7 Column (4) shows ORS's adjustments based on Wyboo's proposed rate increase. A  
8 description of each adjustment is contained in Audit Exhibit CLS-2.

9 Column (5) shows ORS's result of the effect of the proposed rate increase by adding  
10 columns (3) and (4).

11 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT CLS-2.**

12 A. The following adjustment numbers correspond with the numbers listed under Adj. #  
13 in this exhibit:

14 Adjustments 1-2 - ORS Water/Wastewater Department and Wyboo propose to adjust  
15 water and sewer service revenues. ORS Water/Wastewater Department calculated  
16 service revenues using current customers as of April 1, 2006 and the present rates.  
17 Details of these adjustments are shown on Exhibit WJM-10 of ORS  
18 Water/Wastewater Program Manager, Willie Morgan.

19 Adjustments 3-4 - ORS Water/Wastewater Department and Wyboo propose to  
20 remove from revenue water tap fees collected of (\$31,545) and sewer tap fees  
21 collected of (\$7,850). ORS also proposes to include sewer tap fees collected in  
22 contributions in aid of construction ("CIAC") as shown on Audit Exhibit CLS-3 -

1 Computation of Depreciation Expense. Wyboo does not have an approved rate for  
2 water tap fees.

3 Adjustment 5 - ORS Water/Wastewater Department proposes to remove water  
4 reconnect fees of (\$1,129). Wyboo does not have an approved rate for water  
5 reconnect fees.

6 Adjustment 6 - ORS Water/Wastewater Department and Wyboo propose to remove  
7 from revenue (\$9,852) collected from the customers for the Safe Drinking Water Fee  
8 and passed through to the Department of Health and Environmental Control  
9 ("DHEC").

10 Adjustment 7 - ORS proposes to adjust for uncollectible accounts associated with  
11 service revenues. ORS applied an uncollectible rate of 1.5% to the total service  
12 revenues of \$182,148 for water and sewer operations for an allowance of \$2,732.  
13 ORS subtracted the per company application amount of (\$1,528) from (\$2,732) to  
14 get an adjustment of (\$1,204). The ORS Water/Wastewater Department  
15 recommended 1.5% as a reasonable percentage to calculate uncollectible accounts  
16 based on their examination of the customer billing records.

17 Adjustment 8 - ORS and Wyboo propose to annualize salaries based on wage rates in  
18 effect beginning May 2006. ORS computed annualized salaries of \$179,858 less per  
19 company application salaries of \$50,488 for an adjustment of \$129,370 as an  
20 increase to the payroll expenses. ORS calculated the annualized salaries by taking  
21 the employees' most recent hourly rate from their September 2006 paychecks and  
22 multiplying it by 2,080 annual hours. However, during the audit ORS was provided

1 information that Wyboo's owner, Environmental Manager, Accounting Manager and  
2 Maintenance Supervisor were considered employees of other companies during the  
3 same time they were employed at Wyboo. Wyboo failed to provide sufficient  
4 documentation as to the propriety and accuracy of their salaries; therefore, ORS  
5 proposes to disallow 50% of these employees' salaries. Wyboo computed annualized  
6 salaries of \$248,451 less per company application salaries of (\$50,488) for an  
7 adjustment of \$197,963.

8 Adjustment 9 - ORS proposes to remove truck payments of (\$5,964) from the  
9 Vehicle Lease Account, since Wyboo owns this truck. ORS proposes to capitalize  
10 this truck as shown on Audit Exhibit CLS-3 - Computation of Depreciation Expense.

11 Adjustment 10 - ORS proposes to remove from the Gas Account prior period  
12 expenses of (\$672), double booked expenses of (\$72), credit card payments on  
13 outstanding balances with no expense activity of (\$2,468), and unidentifiable  
14 expenses that were not supported by adequate documentation such as invoices and  
15 receipts of (\$568) for a total adjustment of (\$3,780).

16 Adjustment 11 - ORS and Wyboo propose to remove property taxes on the leased  
17 office of (\$4,153) that should have been paid by the lessor. These taxes were booked  
18 in the Tags/Taxes and Service Account. Wyboo's Adjustment for property taxes is  
19 included in Adjustment 29.

20 Adjustment 12 - ORS proposes to reclassify insurance expenses of (\$841) from the  
21 Vehicle Maintenance/Repairs Account, (\$158) from the Tags/Taxes and Service  
22 Account and (\$1,440) from the Vehicle Insurance Account. The total of these

1 expenses of (\$2,439) is reclassified to the Company Insurance Account, which is  
2 included in Adjustment 25.

3 Adjustment 13 - ORS proposes to remove from the Plant Equipment Account  
4 double-booked expenses of (\$4,784), mortgage payments of (\$2,000) on business  
5 property owned by a related party, tractor payments of (\$2,261), and expenses that  
6 were not supported by adequate documentation such as invoices and receipts of  
7 (\$100) for a total of (\$9,145). ORS proposes to capitalize the tractor as shown on  
8 Audit Exhibit CLS-3 - Computation of Depreciation Expense.

9 Adjustment 14 - ORS proposes to remove from the Plant Parts and Supplies Account  
10 double-booked expenses of (\$136), tap-on expenses of (\$862) and expenses that were  
11 not supported by adequate documentation such as invoices and receipts of (\$2,431)  
12 for a total of (\$3,429). ORS proposes to capitalize tap-on expenses as shown on  
13 Audit Exhibit CLS-3 - Computation of Depreciation Expense.

14 Adjustment 15 - ORS and Wyboo propose to remove repair expenses on manhole  
15 covers of (\$1,133) from the Plant Parts and Supplies Account since this was not an  
16 actual expense incurred by the utility.

17 Adjustment 16 - ORS proposes to remove a mortgage payment of (\$1,000) on the  
18 same property described in Adjustment 13, credit card payments on outstanding  
19 balances with no expense activity of (\$560), telephone equipment payments for the  
20 lessor of (\$1,099), expenses that were not supported by adequate documentation such  
21 as invoices and receipts of (\$145) and employee's residential telephone expenses of  
22 (\$509). The total expenses removed from the Telephone Account are (\$3,313).

1 These expenses are not necessary to provide service to the customers and  
2 nonallowable for ratemaking purposes.

3 Adjustment 17 - ORS and Wyboo propose to remove property taxes incurred in 2004  
4 but paid during the test year. These taxes of (\$284) were booked in the Legal and  
5 Accounting Account. Wyboo's adjustment for property taxes is included in  
6 Adjustment 29.

7 Adjustment 18 - ORS proposes to reclassify gross receipts tax expense of (\$1,642)  
8 from the Legal and Accounting Account. This expense is reclassified in  
9 Adjustment 30.

10 Adjustment 19 - ORS proposes to reflect actual allowable bank charges of \$533 for  
11 the test year in the Bank Services Charge Account. ORS's adjustment increased  
12 expenses by \$214 (\$533 allowable charges - \$319 per company application).

13 Adjustment 20 - ORS proposes to reclassify insurance expenses of (\$366) from the  
14 Membership and License Account to the Company Insurance Account, which is  
15 included in Adjustment 25.

16 Adjustment 21 - ORS proposes to remove credit card payments on outstanding  
17 balances with no expense activity of (\$475), prior period expenses of (\$189), cable  
18 television expenses of (\$695), expenses that were not supported by adequate  
19 documentation such as invoices and receipts of (\$4,625) and employees' residential  
20 internet services of (\$1,797). The total expenses removed from the Office Expenses  
21 Account are (\$7,781). These expenses are not necessary to provide service to the  
22 customers and nonallowable for ratemaking purposes.



Adjustment 22 - ORS and Wyboo propose to remove DHEC recoupment fees of (\$12,066) from expenses since this is a pass through.

Adjustment 23 - ORS proposes to remove employee's residential alarm and security expenses of (\$2,221) from the Alarm System Account. These expenses are not necessary to provide service to the customers.

Adjustment 24 - ORS proposes to remove water tank expenses of (\$600) from the Contract Services Account. ORS proposes to capitalize these expenses for the water tank as shown on Audit Exhibit CLS-3 - Computation of Depreciation Expense.

Adjustment 25 - ORS proposes to reclassify insurance expenses of \$2,805, which brings the total of insurance expenses in the Insurance Account to \$11,022 (\$2,805+\$8,217). These expenses are reclassified from Adjustment 12 and 20.

Adjustment 26 - ORS proposes to annualize insurance expenses to reflect the most recent insurance policy premiums totaling \$6,637 by reducing total insurance paid in the test year of \$11,022 by (\$4,385).

Adjustment 27 - ORS and Wyboo propose to annualize depreciation on all plant in service as of April 2006. ORS computed depreciation expense using plant in service and ORS identified capital assets, which consist of the 2004 Ford F-150 truck, International Tractor and tap-on expenses of \$144,049 in addition to the purchased stock, equipment and water tank of \$660,021. ORS reduced depreciation expense by the amortization of cumulative tap fees and the company application depreciation expense for a total adjustment of \$20,877 as shown on Audit Exhibit CLS-3 - Computation of Depreciation Expense. Wyboo computed depreciation expense

1 using plant in service of purchased stock, equipment and water tank of \$632,903.

2 Wyboo's adjustment amounted to \$7,962.

3 Adjustment 28 - ORS and Wyboo propose to adjust payroll taxes associated with the  
4 annualized test year salaries. ORS calculated payroll taxes of \$14,986 which consists  
5 of FICA, SUTA, and FUTA taxes less the per company application amount of  
6 \$5,747, resulting in an adjustment of \$9,239. Wyboo calculated an adjustment of  
7 \$15,145 for payroll taxes.

8 Adjustment 29 - ORS and Wyboo propose to remove property taxes of (\$4,437).  
9 ORS removed these expenses in Adjustments 11 and 17.

10 Adjustment 30 - ORS proposes to reclassify gross receipts tax expense of \$1,642.  
11 This expense is reclassified from Adjustment 18.

12 Adjustment 31 - ORS proposes to adjust the gross receipts taxes associated with the  
13 revenues after accounting and pro forma adjustments. ORS used a factor of  
14 .0112524, which is comprised of the Public Service Commission ("PSC" or  
15 "Commission") and ORS factor of .0082524 and the Department of Revenue's  
16 factor of .003. ORS's total adjustment is \$408(((\$182,148 x .0112524) less  
17 Adjustment 30 of \$1,642).

18 Adjustment 32 - ORS and Wyboo propose to include amortized rate case expenses  
19 for the test year. ORS adjusted for actual current rate case expenses as of October  
20 27, 2006 of \$31,828 amortized over a four-year period for an adjustment of \$7,957.

21 Wyboo proposes to amortize total estimated rate case expenses of \$50,000 over a  
22 two-year period for an adjustment of \$25,000.

1        Adjustment 33 - Wyboo proposes to reclassify mortgage payments of \$12,002 on the  
2        same property described in Adjustment 13 from the Loan Expense Account. Wyboo  
3        reclassified these expenses from Adjustment 35. ORS adjusts rental expense in  
4        Adjustment 34.

5        Adjustment 34 - ORS and Wyboo propose to allow a normalized level of office and  
6        equipment rental expense of \$24,000 for the test year. Wyboo's adjustment totaled  
7        \$11,998 (\$24,000 total rental expenses - \$12,002 reclassified from Adjustment 33).  
8        ORS found the monthly rental expense of \$2,000 to be reasonable based on similar  
9        leased buildings in the area with similar square footage.

10       Adjustment 35 - Wyboo proposes to reclassify mortgage payments of (\$12,002).  
11       These expenses are reclassified in Adjustment 33. ORS proposes to remove  
12       mortgage payments of (\$9,052) on the same property described in Adjustment 13  
13       from the Loan Expense Account.

14       Adjustment 36 - ORS proposes to remove prior period expenses of (\$800), credit  
15       card payments on outstanding balances with no expense activity of (\$8,259), loan  
16       payments of (\$14,124) for the purchase of the utility and the water tank (included on  
17       Audit Exhibit CLS-3 - Computation of Depreciation Expense), and expenses that  
18       were not supported by adequate documentation such as invoices and receipts of  
19       (\$533) for a total adjustment of (\$23,716) to the Loan Expense Account.

20       Adjustment 37 - ORS and Wyboo propose to annualize interest expense for the test  
21       year. ORS calculated the total interest expense of \$51,931 on long-term debt of  
22       \$527,416.

Adjustments 38-39 - Wyboo proposes an increase in water and sewer service rates, which would produce additional revenues of \$558,393, consisting of additional water revenues of \$343,914 and additional sewer revenues of \$214,479. Based upon ORS Water/Wastewater Department calculations, Wyboo's proposed rates would produce additional revenues of \$582,129 consisting of water service revenues of \$366,178 and sewer service revenues of \$215,951. Details of these adjustments are shown on Exhibit WJM-10 of ORS Water/Wastewater Program Manager, Willie Morgan.

Adjustment 40 - ORS proposes to increase returns and allowances to reflect an uncollectible rate of 1.5% of the total proposed revenue increase of \$582,129.

Adjustment 41 - ORS and Wyboo propose to adjust gross receipts taxes associated with the proposed increase. ORS used a factor of .0112524, which is comprised of the PSC and ORS factor of .0082524 and the Department of Revenue's factor of .003.

Adjustment 42 - ORS and Wyboo propose to adjust income taxes associated with the proposed rate increase.

Adjustment 43 - ORS proposes to adjust customer growth for the proposed rate increase using customers as of October 16, 2006, since plant additions are included to that date. See Audit Exhibit CLS-5.

**Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

A. Audit Exhibit CLS-3 shows the computation of the depreciation expense adjustment. Audit Exhibit CLS-4 shows the computation of the income tax adjustment. Audit Exhibit CLS-5 shows the computation of the customer growth adjustment.

1 **Q. DOES WYBOO MAINTAIN ITS BOOKS AND RECORDS IN**  
2 **ACCORDANCE WITH PSC RULES AND REGULATIONS?**

3 A. No. Wyboo does not utilize the NARUC Uniform System of Accounts for Water  
4 and Wastewater Utilities. Wyboo also failed to properly allocate expenses between  
5 water and sewer operations during the test year.

6 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING THE**  
7 **CURRENT DOCKET?**

8 A. Yes. During the examination of Wyboo's expenses, ORS noted numerous  
9 disbursements, which had no apparent business purpose. Examination and analysis  
10 of such disbursement documents, when available, indicated that they included  
11 payments of obligations of affiliated companies and related parties. Inclusion of  
12 such expenses in the calculation of Wyboo's net income for return overstates  
13 expenses and artificially inflates additional revenue requirements. Wyboo's  
14 customers should not bear any costs related to any affiliated companies operated by  
15 the owner of Wyboo.

16 **Q. BASED ON THE ABOVE CONCERNS, DOES ORS HAVE ANY**  
17 **RECOMMENDATIONS FOR WYBOO?**

18 A. Yes. Wyboo should establish a system of accounting controls, which would  
19 preclude recording transactions of non-utility affiliates in the company's books and  
20 records. In addition, ORS recommends that Wyboo maintain a proper allocation  
21 amount for expenses in Wyboo's books and records. In order to prevent any  
22 negative effect on Wyboo customers due to the affiliate transactions, ORS

1 recommends that Wyboo should be required to keep its books and records in  
2 accordance with the NARUC Uniform System of Accounts for Water and  
3 Wastewater Utilities and that Wyboo separate the water and sewer expenses into  
4 the proper water and sewer operations. Maintenance of such books and records  
5 will allow the utility to identify and provide the required information to the  
6 regulatory bodies in order to analyze and verify the relevant facts thereto. ORS  
7 further recommends that such maintenance of books and records be completed by  
8 Wyboo within one year from the final Commission Order issued in this docket.  
9 Thereafter, ORS can review Wyboo's record keeping.

10 **Q. WHAT IS THE RESULTING OPERATING MARGIN COMPUTED BY ORS**  
11 **IN THIS CASE?**

12 A. Based on the rates proposed by Wyboo, ORS computed an Operating Margin of  
13 36.08%, as shown on Audit Exhibit CLS-1.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes.

**REPORT OF THE AUDIT DEPARTMENT**  
**THE OFFICE OF REGULATORY STAFF**  
**DOCKET NO. 2005-13-W/S**  
**WYBOO PLANTATION UTILITIES, INC.**

**REPORT OF THE AUDIT DEPARTMENT  
THE OFFICE OF REGULATORY STAFF  
DOCKET NO. 2005-13-W/S  
WYBOO PLANTATION UTILITIES, INC.**

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**REPORT OF THE AUDIT DEPARTMENT  
THE OFFICE OF REGULATORY STAFF  
DOCKET NO. 2005-13-W/S  
WYBOO PLANTATION UTILITIES, INC.**

**SYNOPSIS**

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<u>Amount Requested:</u>	<u>Per ORS</u>	<u>Per Wyboo</u>
Water Service -----	\$366,178	\$343,914
Sewer Service -----	\$215,951	\$214,479
Less: Returns and Allowances -----	<u>(\$8,732)</u>	<u>(\$0)</u>
Total Operating Revenues-----	<u>\$573,397</u>	<u>\$558,393</u>

<u>Operating Margin:</u>	<u>Per ORS</u>	<u>Per Wyboo</u>
Per Company Application-----	(9.09%)	(9.09%)
After Accounting & Pro Forma Adjustments-----	(108.51%)	(185.06%)
After Proposed Increase-----	36.08%	21.66%

**REPORT OF THE AUDIT DEPARTMENT  
THE OFFICE OF REGULATORY STAFF  
DOCKET NO. 2005-13-W/S  
WYBOO PLANTATION UTILITIES, INC.**

**ANALYSIS**

The South Carolina Office of Regulatory Staff ("ORS") Audit Department reviewed the application of Wyboo Plantation Utilities, Inc. ("Wyboo") along with certain Wyboo accounting records relative to its application requesting to increase certain rates and charges as shown in Docket No. 2005-13-W/S.

Wyboo is a water and wastewater utility operating in the State of South Carolina. It furnishes both water and sewer service to residential and commercial customers in Sumter and Clarendon Counties. Wyboo's office is located at 19 Broad Street in Sumter, South Carolina.

The ORS Audit Department respectfully submits the following results of its review:

1. Wyboo filed an application on August 17, 2006 for approval of rates and charges for water and sewer services provided to its residential and commercial customers.
2. This matter is set for public hearing beginning on Wednesday, December 13, 2006 at 10:30 a.m.
3. Wyboo's application uses a test year ending December 31, 2005.
4. In this application, Wyboo requested a revenue increase of \$558,393. Based on ORS's proposed accounting and pro forma adjustments, ORS Water/Wastewater Department calculated Wyboo's requested revenue increase of \$573,397.
6. The following exhibits are related to Wyboo's application for a proposed increase:

**AUDIT EXHIBIT CLS-1: OPERATING EXPERIENCE AND OPERATING MARGIN**

This exhibit shows Wyboo's operating experience and operating margin for water and sewer operations for the year ended December 31, 2005. The exhibit's format is designed to reflect

per company application figures and ORS proposed accounting and pro forma adjustments necessary to normalize the results of Wyboo's test year operations.

Per company application, total operating revenues were \$202,689 and total operating expenses were \$188,365 resulting in a net operating income and total income for return of \$14,324.

Using total income for return of \$14,324 less interest expense of \$32,768 and operating revenues of \$202,689, ORS computed an operating margin of (9.09%). The net effect of ORS proposed accounting and pro forma adjustments decreased to a total loss for return of (\$142,760) and increased interest expense to \$51,931 resulting in an operating margin of (108.51%).

Wyboo has requested an increase in rates, which would produce additional gross revenues of \$573,397 consisting of water service revenues of \$366,178, sewer service revenues of \$215,951, and returns and allowances of (\$8,732) as computed by ORS Water/Wastewater Department. ORS adjusted gross receipts taxes and income taxes based on these additional gross revenues.

After the proposed increase, total operating revenues would amount to \$752,813 and total operating expenses would amount to \$468,468, producing net operating income of \$284,345. Furthermore, ORS added customer growth of \$39,179 to the net operating income of \$284,345 for the total income for return of \$323,524. Using the total income for return of \$323,524 less interest expense of \$51,931 and the operating revenues of \$752,813, ORS computed an operating margin of 36.08% after the proposed increase.

#### **AUDIT EXHIBIT CLS-2: EXPLANATION OF ADJUSTMENTS**

This exhibit shows the ORS proposed accounting and pro forma adjustments made to normalize Wyboo's operations and the company proposed increase adjustments to reflect Wyboo's proposed increase. For comparative purposes, ORS and Wyboo's adjustments are both presented in this exhibit.

### **AUDIT EXHIBIT CLS-3: COMPUTATION OF DEPRECIATION EXPENSE**

This exhibit shows computations to adjust depreciation expense, which includes the amortization of contributions in aid of construction (CIAC). ORS annualized depreciation expense using rates supplied by the ORS Water/Wastewater Department. The annualized depreciation expense is reduced by the amortization of CIAC.

### **AUDIT EXHIBIT CLS-4: COMPUTATION OF INCOME TAXES**

This exhibit shows the computation of state and federal income taxes based on taxable income after the proposed increase. ORS used a state tax rate of 5% and federal tax rates of 15%, 25%, 34% and 39%. Wyboo used the composite state and federal tax rates of 19.25%, 28.7% and 37.3%.

### **AUDIT EXHIBIT CLS-5: COMPUTATION OF CUSTOMER GROWTH**

This exhibit shows the computation of Wyboo's customer growth factor during the test year. A growth factor of 13.78% was computed for the test year operations.

**Wyboo Plantation Utilities, Inc.**  
**Operating Experience and Operating Margin**  
**For the Test Year Ended December 31, 2005**

		(1)	(2)		(3)	(4)	(5)
		Per	ORS		After		After
		Company	Proposed		Accounting	Proposed	Proposed
		Application	Accounting		& Pro Forma	Increase	Increase
			& Pro Forma		Adjustments		
			Adjustments				
<b><u>Operating Revenues</u></b>							
Water Service	Note	\$ 102,933	\$ 16,815 (A)	\$ 119,748	\$ 366,178 (V)	\$ 485,926	
Sewer Service		50,908	11,492 (B)	62,400	215,951 (W)	278,351	
Water Tap Fees		31,545	(31,545) (C)	0	0	0	
Sewer Tap Fees		7,850	(7,850) (D)	0	0	0	
Water Reconnect Fees		1,129	(1,129) (E)	0	0	0	
DHEC Testing Revenues		9,852	(9,852) (F)	0	0	0	
Less: Returns and Allowances		(1,528)	(1,204) (G)	(2,732)	(8,732) (X)	(11,464)	
<b><u>Total Operating Revenues</u></b>	Note	<u>202,689</u>	<u>(23,273)</u>	<u>179,416</u>	<u>573,397</u>	<u>752,813</u>	
<b><u>Operating Expenses</u></b>							
Salaries and Wages		50,488	129,370 (H)	179,858	0	179,858	
Maintenance and Repairs		40,983	(30,043) (I)	10,940	0	10,940	
Utilities		26,720	(3,313) (J)	23,407	0	23,407	
Office Supplies and Expenses		17,170	(9,859) (K)	7,311	0	7,311	
DHEC Testing Expenses		12,066	(12,066) (L)	0	0	0	
Alarm System		4,744	(2,221) (M)	2,523	0	2,523	
Contract Services		10,795	(600) (N)	10,195	0	10,195	
Insurance		8,217	(1,580) (O)	6,637	0	6,637	
Depreciation Expense		11,435	20,877 (P)	32,312	0	32,312	
Taxes and Licenses		5,747	9,239 (Q)	14,986	0	14,986	
Gross Receipts Taxes		0	2,050 (R)	2,050	6,550 (Y)	8,600	
Rate Case Expenses		0	7,957 (S)	7,957	0	7,957	
Rental Expenses (Office and Equipment)		0	24,000 (T)	24,000	0	24,000	
Income Taxes (State and Federal)		0	0	0	139,742 (Z)	139,742	
<b><u>Total Operating Expenses</u></b>		<u>188,365</u>	<u>133,811</u>	<u>322,176</u>	<u>146,292</u>	<u>468,468</u>	
<b><u>Net Operating Income (Loss)</u></b>	Note	<u>14,324</u>	<u>(157,084)</u>	<u>(142,760)</u>	<u>427,105</u>	<u>284,345</u>	
Customer Growth		0	0	0	39,179 (AA)	39,179	
<b><u>Total Income (Loss) for Return</u></b>	Note	<u>\$ 14,324</u>	<u>\$ (157,084)</u>	<u>\$ (142,760)</u>	<u>\$ 466,284</u>	<u>\$ 323,524</u>	
<b><u>Interest Expense for Operating Margin</u></b>		<u>32,768</u>	<u>19,163 (U)</u>	<u>51,931</u>		<u>51,931</u>	
<b><u>Operating Margin</u></b>		<u>-9.09%</u>		<u>-108.51%</u>		<u>36.08%</u>	

**Note:** Per Company Application water service revenue reflects the correction of an error which impacts Total Operating Revenues, Net Operating Income and Total Income for Return.

**Wyboo Plantation Utilities, Inc.**  
**Explanation of Adjustments**  
**For the Test Year Ended December 31, 2005**

Revenues and Expenses	Adj.#	Description	\$ ORS	\$ Wyboo
<b><u>ORS Proposed Accounting and Pro forma Adjustments</u></b>				
(A) Water Service	1	To adjust water revenues to reflect actual customer units.	16,815	8,747
(B) Sewer Service	2	To adjust sewer revenues to reflect actual customer units.	11,492	10,532
(C) Water Tap Fees	3	To remove water tap fees collected that have not been approved by the Commission.	(31,545)	(31,545)
(D) Sewer Tap Fees	4	To remove sewer tap fees collected. ORS includes these revenues in contributions in aid of construction.	(7,850)	(7,850)
(E) Water Reconnect Fees	5	To remove fees collected from the customers to reconnect water that have not been approved by the Commission.	(1,129)	0
F) DHEC Testing Revenues	6	To remove from revenue fees collected from the customers for the Safe Drinking Water Fee and passed through to DHEC.	(9,852)	(9,852)
(G) Returns and Allowances	7	To reflect an uncollectible rate of 1.5% to total water and sewer service revenues of \$182,148.	(1,204)	0
(H) Salaries and Wages	8	To annualize salaries based on wage rates in effect as of May 2006.	129,370	197,963
(I) Maintenance and Repairs	9	To remove truck payments from the Vehicle Lease Account and to capitalize the truck on the depreciation schedule.	(5,964)	0
	10	To remove prior period, double-booked and unsupported expenses and credit card payments from the Gas Account.	(3,780)	0
	11	To remove property taxes on the leased office that should have been paid by the lessor from the Tags/Taxes and Service Account. Wyboo's adjustment for property taxes is included in Adjustment 29.	(4,153)	0
	12	To reclassify insurance expenses to the Insurance Account in Adjustment 25.	(2,439)	0
	13	To remove double-booked and unsupported expenses and mortgage and tractor payments from the Plant Equipment Account and to capitalize the tractor on the depreciation schedule.	(9,145)	0
	14	To remove double-booked, unsupported and tap-on expenses from the Plant Parts and Supplies Account and to capitalize the tap-on expenses on the depreciation schedule.	(3,429)	0
	15	To remove repair expenses on manhole covers from the Plant Parts and Supplies Account.	(1,133)	(1,133)
Total Maintenance and Repairs			(30,043)	(1,133)

Wyboo Plantation Utilities, Inc.  
Explanation of Adjustments  
For the Test Year Ended December 31, 2005

Revenues and Expenses	Adj.#	Description	\$ ORS	\$ Wyboo
(J) Utilities	16	To remove mortgage and credit card payments, payments for the leased telephone and unsupported and other nonallowable expenses from the Telephone Account.	(3,313)	0
(K) Office Supplies and Expenses	17	To remove property taxes incurred in 2004 but paid during the test year from the Legal and Accounting Account. Wyboo's adjustment for property taxes is included in Adjustment 29.	(284)	0
	18	To reclassify gross receipts tax expense in Adjustment 30.	(1,642)	0
	19	To reflect actual allowable bank charges for the test year in the Bank Service Charge Account.	214	0
	20	To reclassify insurance expenses in Adjustment 25.	(366)	0
	21	To remove credit card payments and cable television, prior period, unsupported and other nonallowable expenses from the Office Expense Account.	(7,781)	0
		Total Office Supplies and Expenses	(9,859)	0
(L) DHEC Testing Expenses	22	To remove DHEC recoupment fee from expenses since this is a pass through.	(12,066)	(12,066)
(M) Alarm System	23	To remove nonallowable expenses from the Alarm System Account.	(2,221)	0
(N) Contract Services	24	To remove water tank expenses from the Contract Services Account and to capitalize the water tank on the depreciation schedule.	(600)	0
(O) Insurance	25	To reclassify insurance expenses from Adjustment 12 and 20.	2,805	0
	26	To annualize insurance expenses to reflect the most recent insurance policy premiums.	(4,385)	0
		Total Insurance	(1,580)	0
(P) Depreciation Expense	27	To annualize depreciation on all plant-in-service.	20,877	7,962
(Q) Taxes and Licenses	28	To adjust payroll taxes associated with the annualized test year salaries.	9,239	15,145
	29	To remove property taxes. ORS's adjustment for property taxes is included in Adjustments 11 and 17.	0	(4,437)
		Total Taxes and Licenses	9,239	10,708
(R) Gross Receipts Taxes	30	To reclassify gross receipts tax expense from Adjustment 18.	1,642	0
	31	To adjust the gross receipts taxes associated with the revenues after the accounting and pro forma adjustments.	408	0
		Total Gross Receipts Taxes	2,050	0

Wyboo Plantation Utilities, Inc.  
Explanation of Adjustments  
For the Test Year Ended December 31, 2005

Revenues and Expenses	Adj.#	Description	\$ ORS	\$ Wyboo
(S) Rate Case Expenses	32	To amortize rate case expenses of \$31,828 over a four-year period. Wyboo amortizes rate case expenses of \$50,000 over a two-year period.	7,957	25,000
(T) Rental Expenses	33	To reclassify mortgage payments from Adjustment 35.	0	12,002
	34	To allow a normalized level of office and equipment rental expense for the test year.	24,000	11,998
		Total Rental Expenses	24,000	24,000
(U) Interest Expense	35	To remove mortgage payments from the Loan Expense Account. Wyboo reclassifies mortgage payments in Adjustment 33.	(9,052)	(12,002)
	36	To remove prior period and unsupported expenses and credit card payments from the Loan Expense Account.	(23,716)	0
	37	To annualize interest expense for the test year.	51,931	30,814
		Total Interest Expense	19,163	18,812
<b><u>Proposed Increase</u></b>				
(V) Water Service	38	To adjust water revenues for the proposed rate increase.	366,178	343,914
(W) Sewer Service	39	To adjust sewer revenues for the proposed rate increase.	215,951	214,479
(X) Returns and Allowances	40	To increase returns and allowances to reflect an uncollectible rate of 1.5% of the total proposed revenues of \$582,129.	(8,732)	0
(Y) Gross Receipts Taxes	41	To adjust gross receipts taxes associated with the proposed rate increase.	6,550	3,965
(Z) Income Taxes	42	To adjust income taxes associated with the proposed rate increase.	139,742	76,398
(AA) Customer Growth	43	To adjust customer growth associated with the proposed rate increase.	39,179	0



**Wyboo Plantation Utilities, Inc.**  
**Computation of Depreciation Expense**  
**For the Test Year Ended December 31, 2005**

Date Acquired	Description	Amount \$	Service Life years	Depr. Rate %	Depr. Expense \$	Accum. Depreciation \$
<u>Purchased Stock:</u>						
April 2001	Sewer Step System (125 @ \$5,800)	725,000	15	6.67%	48,358	290,148
April 2001	Well 1 & 2 Storage Complete	285,000	27	3.70%	10,545	63,270
April 2001	Well 3 with Storage Complete	88,948	27	3.70%	3,291	19,746
April 2001	Well 4 Complete	72,000	27	3.70%	2,664	15,984
April 2001	White Oak Point Distr. System	40,000	38	2.63%	1,052	6,312
April 2001	White Oak Landing Distr. System	40,000	38	2.63%	1,052	6,312
April 2001	Creekside Subdivision Distr. System	30,000	38	2.63%	789	4,734
April 2001	Waste Water Treatment Facility	135,000	27	3.70%	4,995	29,970
April 2001	Millcreek Sewer and Collection System	80,000	27	3.70%	2,960	17,760
April 2001	Wyboo Sub. Distr. & Coll. System	545,040	27	3.70%	20,166	120,996
April 2001	Deercreek Distr. & Collection System	345,000	27	3.70%	12,765	76,590
April 2001	Clubway Commons	100,000	38	2.63%	2,630	15,780
		2,485,988			111,267	667,602
	Purchase Acquisition Adjustment	(2,245,488)			(101,431)	(608,586)
	<b>Total Purchased Stock (Actual Cost):</b>	<b>240,500</b>	<b>24.43</b>	<b>4.09%</b>	<b>9,836</b>	<b>59,016</b>
<u>Purchased Stock &amp; Equipment:</u>						
Nov 2001	Building 12x20 Metal	2,862	35	2.86%	82	492
Oct 2001	Building 12x20 Vinyl Siding	3,824	20	5.00%	191	1,146
Sept 2001	Building 8x8 Masonite (2)	1,272	20	5.00%	64	384
June 2002	Light Poles	3,500	15	6.67%	233	1,165
	<b>Total Purchased Stock &amp; Equipment:</b>	<b>11,458</b>			<b>570</b>	<b>3,187</b>
<u>Water Tank:</u>						
April 2006	301k Gallon Storage Tank	321,686	33	3.03%	9,747	9,747
April 2006	Booster Station	51,200	15	6.67%	3,415	3,415
April 2006	Generator	35,177	17	5.88%	2,068	2,068
	<b>Total 301k Gallon Storage Tank</b>	<b>408,063</b>			<b>15,230</b>	<b>15,230</b>
	<b>Total Plant-in-Service on Wyboo's Books</b>	<b>660,021</b>			<b>25,636</b>	<b>77,433</b>
<u>Capitalized by ORS</u>						
June 2002	International Tractor	15,000	10	10.00%	1,500	7,500
July 2004	2004 Black Ford F150 Truck	31,049	6	16.67%	5,176	15,528
2001-2006	Capitalized Tap-on Expenses **	98,000	15	6.67%	6,533	39,198
	<b>Total ORS Additions</b>	<b>144,049</b>			<b>13,209</b>	<b>62,226</b>
	<b>ORS Depreciation Expense</b>	<b>804,070</b>			<b>38,845</b>	<b>139,659</b>
<u>Amortization Associated with Tap Fees (CIAC)</u>						
	Cumulative Tap Fees 2001-2006			98,000		
	Amortization Rate			6.67%		
	Less: Amortized Tap Fees				(6,533)	
	Net Depreciation Expense				32,312	
	Less: Per Company Application Depreciation Expense				11,435	
	<b>Depreciation Expense Adjustment</b>				<b>20,877</b>	

\*\* = Capitalized tap-on expenses equal 196 sewer taps @ \$500 each.

CIAC = Contributions in Aid of Construction

**Note:** Cedar Hill and Granada Water were removed since no costs were incurred by Wyboo. Wyboo also owns land of \$9,500.

Wyboo Plantation Utilities, Inc.  
 Computation of Income Taxes  
 For the Test Year Ended December 31, 2005

	<u>After Proposed Increase</u>
Total Operating Revenues	\$ 752,813
Less: Operating Expenses	(328,726)
Less: Annualized Interest Expense	<u>(51,931)</u>
State Taxable Income	372,156
Less: State Income Taxes @ 5%	<u>(18,608)</u>
Federal Taxable Income	353,548
Federal Income Taxes:	
1st \$50,000 @ 15%	7,500
Next \$25,000 @ 25%	6,250
Next \$25,000 @ 34%	8,500
Remaining Balance @ 39%	<u>98,884</u>
Total Federal Income Taxes	121,134
Total State and Federal Income Taxes	139,742
Less: Income Taxes after Accounting and Pro Forma Adjustments	<u>0</u>
<b>Income Taxes Adjustment</b>	<b><u>\$ 139,742</u></b>

**Wyboo Plantation Utilities, Inc.**  
**Computation of Customer Growth**  
**For the Test Year Ended December 31, 2005**

	<u>After Proposed Increase</u>
Net Operating Income (Loss)	\$ 284,345
Growth Factor	<u>0.137788</u>
<b>Customer Growth Adjustment</b>	<b><u>\$ 39,179</u></b>

\* Service Units:

Beginning	729
Ending	962
Average	845.5

Formula:

<u>Ending-Average</u>	<u>116.5</u>
Average	845.5

**\* Note:**

The service units were provided by Water/Wastewater Program Manager, Willie Morgan.

Beginning customer growth is @ 1/2005.

Ending customer growth is @ 4/2006.